



the **Local Shopping** reit plc

Preliminary half year results to 31 March 2008



Highlights

- **Portfolio valued at £237.9m based on a high equivalent yield of 7.53% using recent comparable evidence from private treaty and auction markets**
- **36 acquisitions since 30 Sep 07 for £8.6m at 7.56% IY, showing a 4.1% increase over purchase price**
- **Sale of 17 lower yielding/ex-growth properties for £6.2m at 5.86% IY, in line with Sep 07 valuation**
 - 8 commercial units sold after the financial period for £2.28m producing a small book profit
 - 34 flats sold after the financial period for £1.75m producing a small book profit
- **Highly active asset management since Sept 07**
 - 35 new lettings secured generating rental income of £358,775 p.a. (9.8% above Market Rent)
 - Surrender & re-lettings, lease renewals and rent reviews added £207,646 p.a. (13.8% above passing rent and 5.4% above market rent)
 - Planning consent secured for two flats and five change of use applications
 - Planning applications submitted for a further 24 flats and 3 retail units

Highlights

- **Profit from recurring rental business for 6 months £2.7m**
(before revaluation adjustment and movement in fair value of swaps)
- **Adjusted* NAV per share 138.8p V 158.6p at 30 September 2007**
*(*adjusted to include fair value of Barclays fixed rate loan (£0.37m V £2.96m))*
- **IFRS loss before tax £14.5m**
(including revaluation loss of £14.6m)
- **Strong financial position**
 - Total debt £114m
 - Current loan to value 46.8%, gearing 83.9%
 - £105m of un-drawn facilities
 - £35.6m uncharged properties
 - A business positioned to take advantage of the changing conditions
- **Interim dividend per share 2.875p paid as a Property Income Dividend**

Changing our Dividend policy

- The financial crisis was unforeseen at time of IPO.
 - This has resulted in a sharp down turn in the property market
 - Property market has deteriorated further since xmas
- Our business was repositioned quickly to take account of market conditions
 - Portfolio size at the full year 2008 will be much smaller than originally envisaged
 - Gearing below IPO projections
 - Financial flexibility very important to take advantage of any upturn/ opportunities
 - Asset management and recycling
- Board believe that over distributing in light of market conditions is not beneficial to the business and shareholder value
- The change in the policy is being undertaken from a position of strength
 - we could pay a higher dividend but do not believe it is the right thing to do
- We intend to pay 100% of recurring profits as a dividend in the future.
- This level of 2.875p per share is the basis of a sustainable and progressive dividend

Business Outlook

- **Current conditions are challenging but the business is performing well**
 - Lack of bank finance in market, will lead to yields rising further across the property market
 - Residential sales slower due to lack of first time buyers and buy to let mortgage products
 - Consumer slowdown is beginning to impact on discretionary spending
 - Defaults may rise but we are also seeing good tenant demand
 - Liquidity of stock, with volumes down further down since early 08
 - Regional investors are still holding out for strong prices
- **Future opportunities**
 - Larger parades and neighbourhood schemes
 - Early discussions with potential joint venture partners for opportunistic buys
 - Bank receiverships will start in next 3-6 months
 - Corporate acquisitions using Reit status where possible
 - Regional differences, London v Regions, especially auction market

Business Outlook

- **Core portfolio is defensive due to the small lot size of our property**
 - Private owners, generally lower borrowings, SIPPs etc
 - Credit impact on larger transactions
 - Independent retailers have to work to pay the mortgage
 - Good rental growth performance, consistently beating valuers' market rents which do not reflect the true reversionary potential in the portfolio
 - RPI reviews and rents deposits
- **Strong financial position compared to our competition**
- **Accretive nature of business even greater than originally planned**
 - Agent network in place ready to exploit the imperfect market

Our future success will be based on

- Robust financing: low cost, long term and hedged
- Positioning the business to take advantage of distressed situations
- Efficient management systems and a committed team
- Active asset management to generate income and capital growth
- Recycling of capital through sales of lower yielding ex-growth assets
- Share buybacks when appropriate
- Selective accretive acquisitions in sustainable locations

Financial Performance for the 6 months to 31 March 2008

Income Statement	31 March 2008
Rental income after property expenses	£7.42m
Admin expenses	£1.57m
Interest expense <i>(excluding the movement in fair value of swap)</i>	£3.02m
Other expenses	£0.10m
Profit before tax	£2.73m
Interest cover	275%
EPS excluding revaluation adjustment and movement in fair value of swaps	2.94p

Financial Performance

Balance Sheet	31 March 2008
Valuation of portfolio	£237.9m
Outstanding debt	£114.2m
Net assets	£128.6m
Gearing	83.9%
Loan to value ratio	46.8%
Adjusted NAV per share <i>(adjusted for fair value of loan not recognised)</i> <i>(based on 92.939m shares)</i>	138.8p
Share buy backs since 30 September	
Number of shares	4.6m
Average price per share	121.4p

Finance – Debt facilities

Barclays

- Amount £69m
- Margin 75 bp
- Term 8.25 yrs
- Fixed rate loan including margin at 5.6%

HSBC

- Amount £150m
- Margin 60 to 75 bp depending on LTV
- Term 8.5 yrs
- Current drawings £45m
- Hedging available £35m
- Hedged loan including margin at 5.8%

Key features of both loans

- No ongoing LTV default Covenants
- Low Interest cover tests (cash trap)
- Interest only within LTV bands

Portfolio Valuation – £237.9m (as at 31 Mar 2008)

Capital Value (CV)	No. of Properties	Market Value	Equivalent Yield (EY)*	Change Sep 07-Mar 08
£0 – £100k	62	£5.0m	7.64%	+50bps
£101 – £200k	244	£37.2m	7.44%	+37bps
£201 – £500k	218	£67.2m	7.48%	+46bps
£501k – £1m	93	£65.9m	7.43%	+44bps
£1 – £3m	32	£48.9m	7.72%	+50bps
£3m +	3	£13.7m	7.71%	+55bps
Total	652	£237.9m	7.53%	+45bps

- Rent £16.9m pa, ERV £18.8m pa (6.76% Initial Yield, 7.53% Reversionary Yield)
- Existing Portfolio: Down 5.8% from Sep 07 (£228.9m vs £242.9m**). 44 bps rise in Equivalent Yield from 7.10% to 7.54%
- New Acquisitions: Up 4.1% above purchase price (£9.0m vs £8.6m)

* Excluding residential valued at 85% of vacant possession value

** Adjusted for sales / purchase of a freehold interest

Highly Active Asset Management Since 30 Sep 2007

New Lettings

- 35 vacant units let at £358,775 pa, 9.8% above market rent

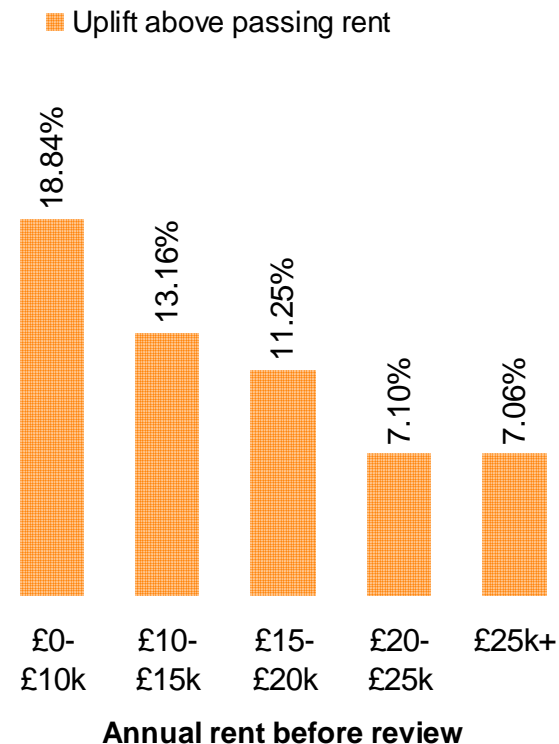
Rent Reviews

- Reviews on 82 units increased rents by £122,441 pa; average uplift of 12.0%, 3.1% above market rent
- **Biggest increases for smallest units**

Lease Renewals

- Renewals on 24 units have increased rents by £51,577 pa; average uplift of 20.1%, 8.4% above market rent

Rent Reviews – Dec 05 to date*



* Based on 197 rent reviews

Highly Active Asset Management Since 30 Sep 2007



Surrender and Relettings

- Surrender and relettings on 15 units have increased rents by £33,628 pa; average uplift of 15.0%, 12.4% above market rent

Planning

- Planning consent secured for 2 residential units and 5 change of use applications
- Applications submitted for a further 24 residential units and 3 retail units

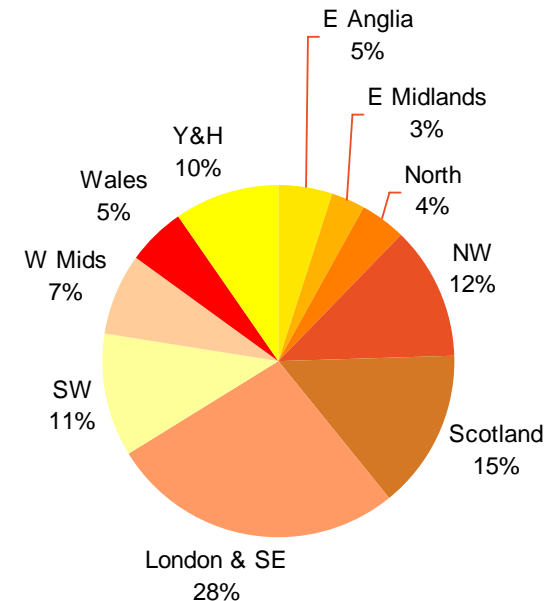
Sales

- 17 commercial properties sold for £6.22m at an average yield of 5.86% (Sep 07 valuation £6.20m)
- Further sales planned: post half year 8 properties sold for £2.28m at an average yield of 6.56% (Mar 08 valuation £2.22m)
- 2 Flats sold for £0.15m (Sep 07 valuation £0.13m)
- Further residential sales planned: post half year 34 flats sold for £1.75m (Mar 08 valuation £1.59m)
- The upper floors of a shop in Goole were sold for £0.13m having obtained planning permission for a development of 5 flats.

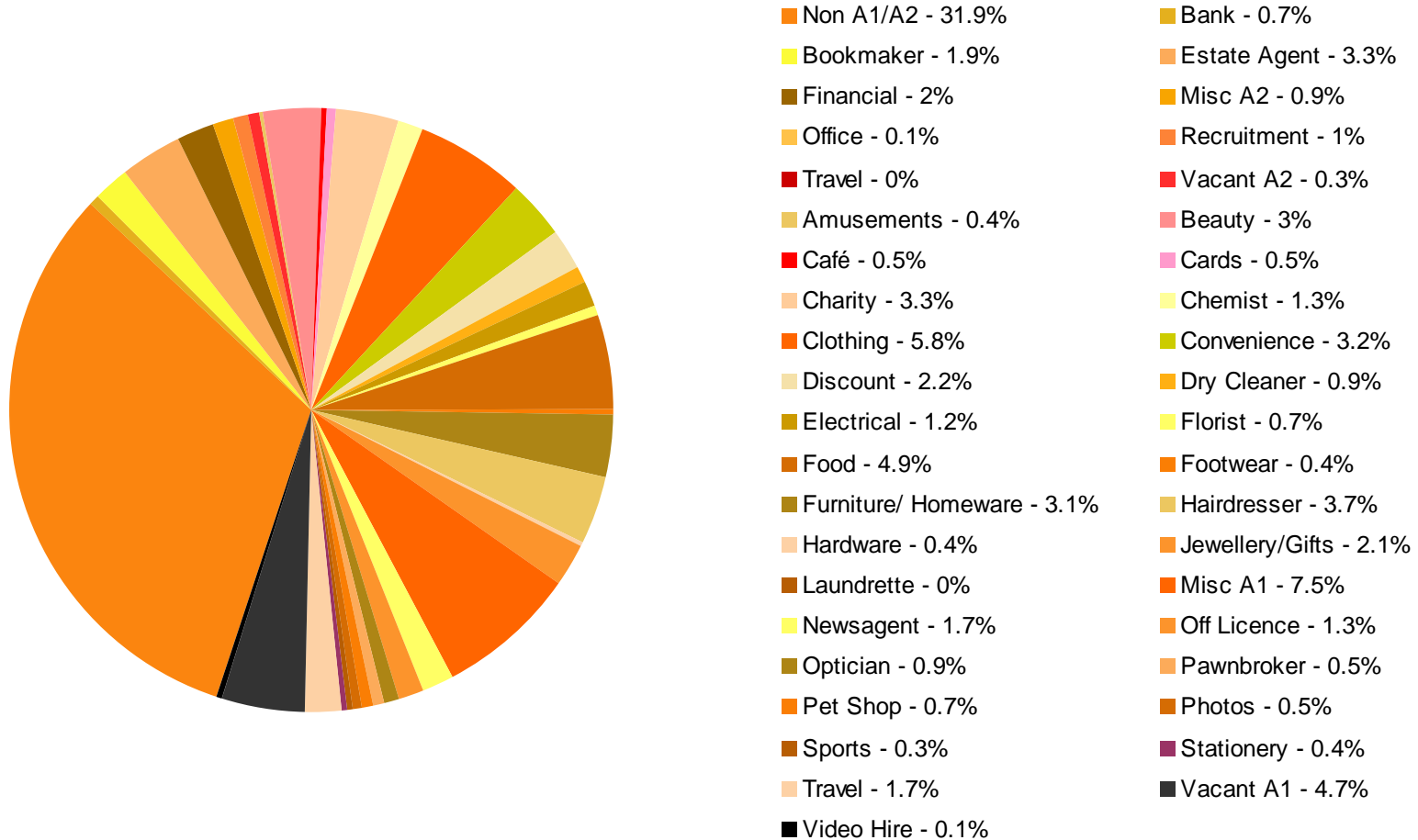
A Diversified Portfolio (data as at 31 Mar 08)

- 652 properties, 2,017 letting units
- Median property £215,000
- Largest tenant: 1.1% of portfolio rent
- Largest property: 2.9% of portfolio value
- Retail: 82.9%
- Offices: 5.3%
- Residential: 9.0%
 - valued at £21.8m (85% of vacant possession value)
 - sales ongoing
- Other: 2.8%

Regional Spread

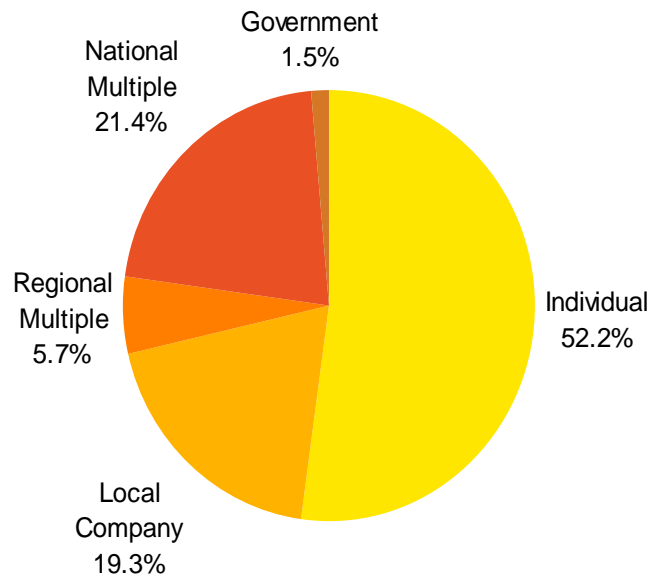


Diverse Tenant Base - A1/A2 Users by ERV (as at 31 Mar 2008)



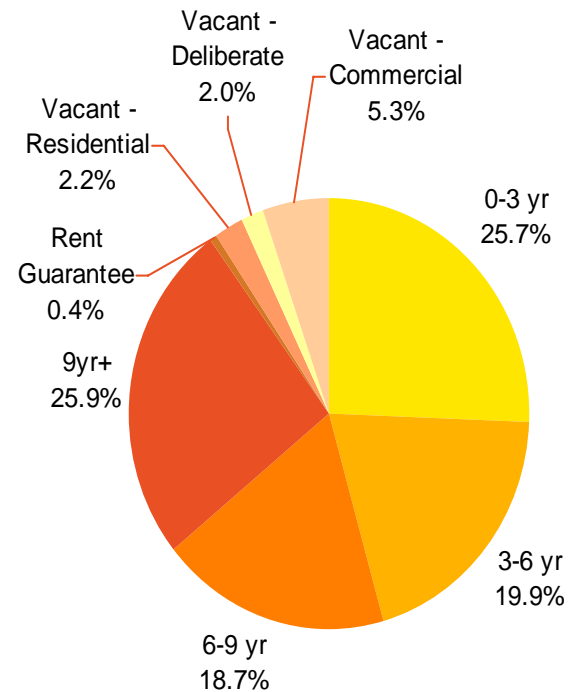
Portfolio Income (as at 31 Mar 2008)

Tenant Grade



- 71.5% local independent traders

Lease Expiry Profile



- Weighted average: 7.5 years or with breaks 6.3 years

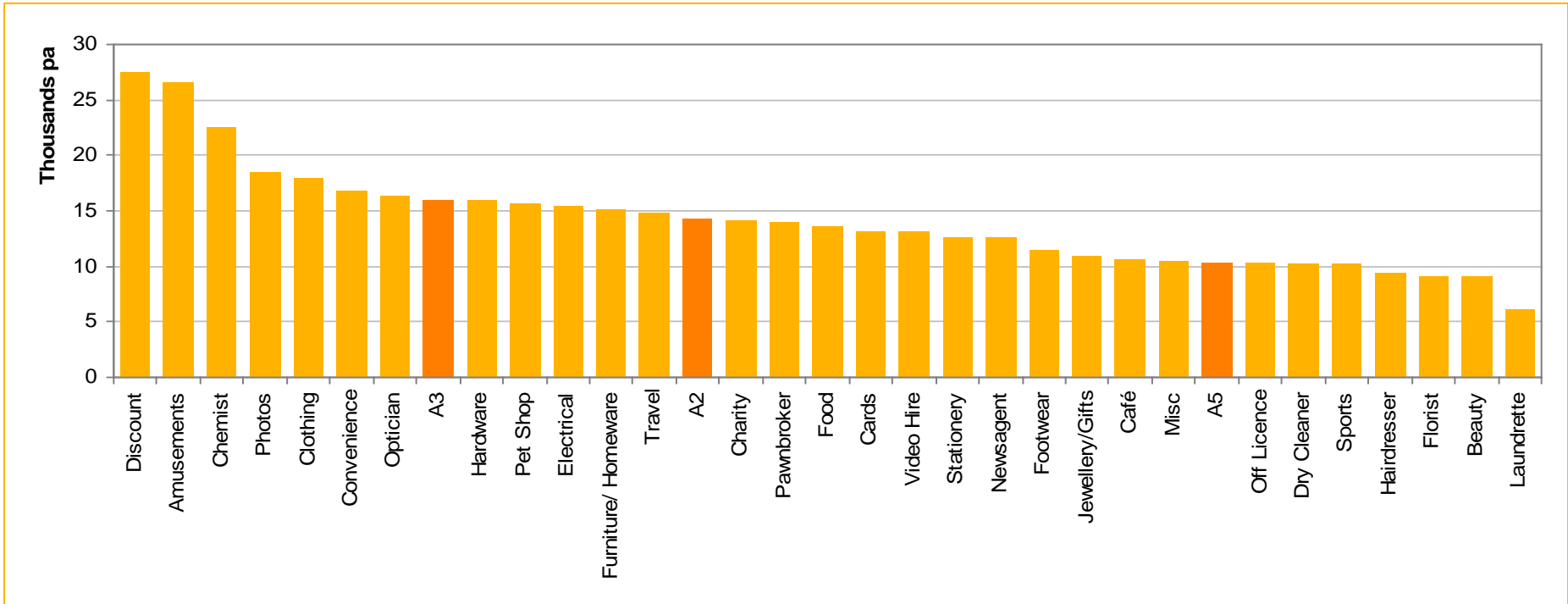
Void Rate

	% of Market Rent	
	September 2007	March 2008
Vacant – Deliberate	0.7%	2.0%
Vacant – Residential	1.5%	2.2%
Vacant - Commercial	3.4%	5.3%
Total	5.6%	9.5%

- Commercial voids in line with expectations:
 - 12 “non-core” units (out of 95 vacant) with rents > £20,000 pa account for 30%: change of use/planning, vacant possession sales
 - Continuing reduced impact of fully-let new purchases
 - If units “under offer” are let then void rate would fall to 3.95%
- Deliberate voids increased to allow us to exploit change of use and reconfigure units
- Bad debts: running at 1.9% of rent demanded

Affordable Rents

Average Rents per Tenant Type

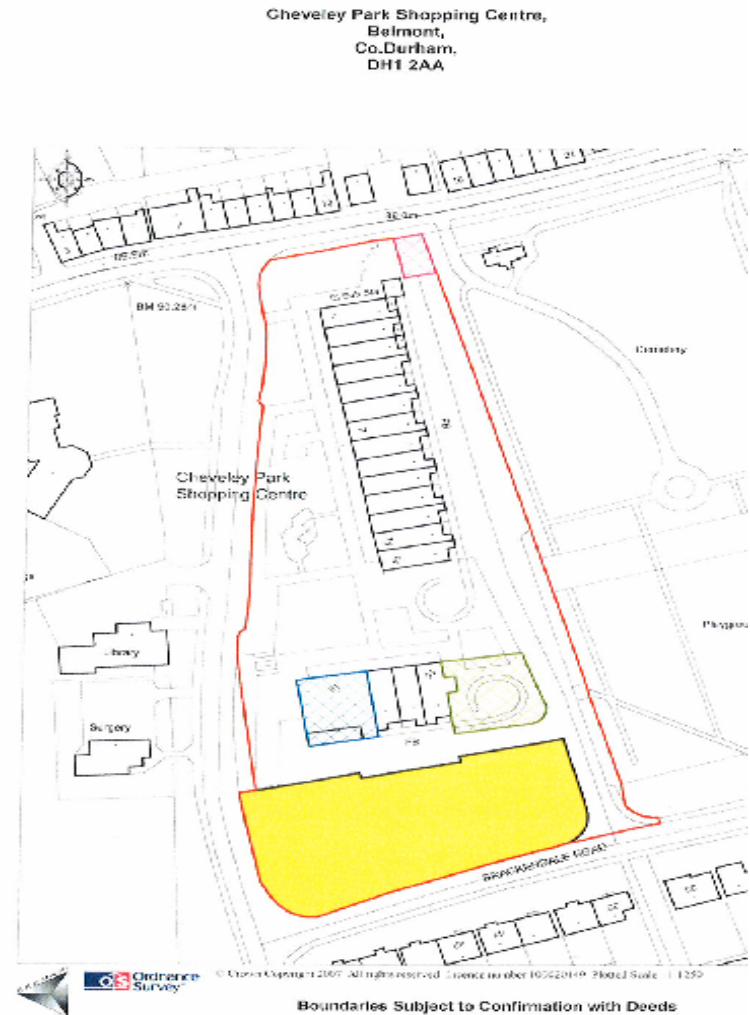


- Average market rent per shop – £12,912 pa (c. £250 per week), or £11.97 psf
- Colliers Research estimates rent only 6.9% of turnover in local shopping market
- Tenant demand stronger for sub £15,000 pa units: non-discretionary spend
- Tenant demand weaker for over £15,000 pa units: comparison shopping

Asset Management – Cheveley Park, Durham



- Neighbourhood shopping parade acquired with 5 vacant units on 1 yr rental guarantees
- 4 units re-let within 6 months at or above ERV and one unit under offer
- Potential to continue previous owners policy of taking back upper parts from tenants and letting flats separately
- Planning application submitted for new 2,000 sq.ft retail unit with 4 x flats above



Asset Management – Rawtenstall



- Ground floor retail units let with ancillary upper parts
- Unit 18 – lease expires Oct '08 and tenant not renewing. Unit under offer to A5 operator at £11,500 pa for grnd fl only versus previous rent of £11k pa. Planning application submitted for A5 use on grnd fl and 2 x flats on upper floors
- Unit 20 – Former tenant in receivership . Unit under offer to A2 operator at £14k pa for grnd fl only versus previous rent of £16k pa for whole. Planning application submitted for A2 use on grnd fl and 5 x flats on upper floors

Contacts



LSR

- Mike Riley tel: +44 (0)20 7292 0310
- Nick Gregory tel: +44 (0)20 7292 0311
- Vickie Whitehouse tel: +44 (0)20 7292 0317

mike.riley@LSReit.co.uk
nick.gregory@LSReit.co.uk
vickie.whitehouse@LSReit.co.uk

Appendices



1. Our Sector
2. Our Model
3. How we asset manage

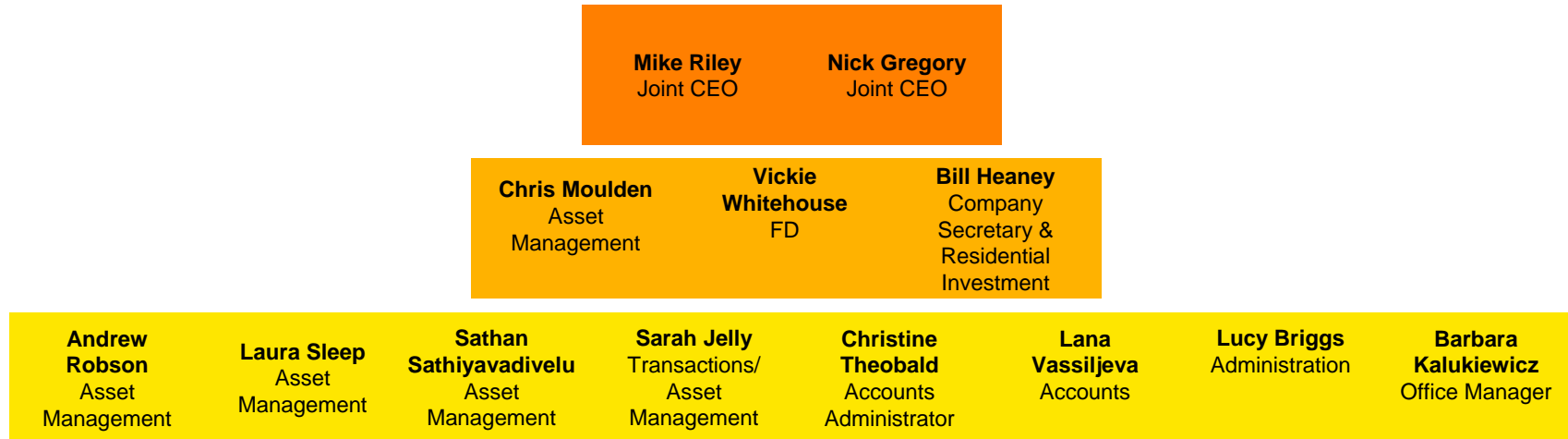
1. Our Sector

- **Local Shopping**
 - The Shops you use everyday for your **non discretionary spend**
 - Neighbourhood, Convenience, Top up, Traditional, Specialist
 - Not High street at £75 ZA
 - Majority are sole traders not W H Smith, Next, Currys etc
- **Complementary to future trends**
 - Ageing society, congestion charging, sustainability, green issues, car parking
- **Market / Supply**
 - £25bn
 - Broadly neutral supply
- **Low & Affordable rents**
 - Average shop rent £12psf – (£12,912 pa, c. £250 per week),
 - Rent is less than 7% of turnover
- **Imperfect market**

2. Our model

- **Accretive model**
 - average purchase yield 7.56% since 30 Sep 07
 - funding @ 5.69% - 6.00%
- **Capital growth**
 - Asset management opportunities
 - Upper parts, reconfigurations, surplus land, ransom strips etc
- **Using REIT status to buy CGT pregnant companies**
- **Operational business with a property platform**
 - Efficient management systems in place
 - Nationwide coverage with 50+ agents executing our business plan

3. How We Asset Manage



- Agency network: 24 regional acquisition agents together with 30 local asset managers implementing our business plan
- Reducing costs by:
 - Using Law Society leases where appropriate: lower value, short term lettings
 - Carrying out rent reviews in-house without recourse to third party determinations
- Continual portfolio review to identify opportunities to release value from reconfigurations, adjoining/surplus land and under-used upper parts